Press Release

# Euler Hermes: UK retains top 'AA1' risk rating in country report

- *Maintains highest AA1 trade risk rating, but with negative outlook*
- *Flags concerns that prolonged uncertainty will weigh down investment and private consumption*
- *Expects UK to enter recession by the end of 2016*
- *Shrinks GDP growth forecast for the year to 1.3 per cent, down from 1.9 per cent*
- *Suggests interim agreements between the UK and the EU may be on the cards*

**LONDON - 4 JULY 2016 –** The UK economy retained its 'AA1' trade risk rating in a new post-Brexit UK country report from Euler Hermes, the worldwide leader in trade credit insurance. The announcement provides a confidence boost for the economy's near term post-Brexit trade prospects for European businesses trading with UK counterparties in the current volatile climate.

The Euler Hermes rating is calculated using a confluence of factors, including political risk, structural business environment - which considers regulatory and legal frameworks, and macro-economic analysis on economic structure, budgetary and monetary policy, trade balance and stability of the banking system. AA1 is the highest rating available.

"Downside pressures on sterling, share prices and gilts could remain high in the near future - and so will volatility and uncertainty," said Ana Boata, European economist at Euler Hermes. "The UK has supportive economic, fiscal and monetary policies, a healthy banking sector, and a diversified export structure in terms of sectors. This leads us to maintain the rating for the UK as a low-risk economy for trade, but with a negative outlook should uncertainty and economic deterioration increase during the remainder of 2016."

Set against this positivism are concerns about the high trade balance and current account deficits, low productivity growth and uncertainty surrounding Brexit. Euler Hermes expects UK GDP growth to slump to +1.3 per cent in 2016, down from its previous forecast of +1.9 per cent.

The resilient economic performance of the UK in the first two quarters of the year should be offset by a recession in the second half, with -0.2 per cent and -0.1 per cent quarter-on-quarter growth forecast in Q3 and Q4 respectively.

The UK real GDP growth is predicted to fall to 1 per cent in 2017 and 1.2 per cent in 2018, down from 1.8 per cent (2017) and 1.7 per cent (2018) if the country had voted to remain in the EU. British exports could fall by £30bn by 2019 if a free trade agreement (FTA) cannot be secured with the EU, compared to a £9bn loss with a replacement FTA in place.

Uncertainty and a loss of purchasing power following the devaluation of the pound will hold back short term economic growth in the coming quarters, possibly tipping the UK into recession this year. The resulting rise in import prices will likely impact companies' profitability in the UK, particularly given the very high goods trade balance deficit, nearly two thirds of which is with the EU, the report finds.

"The withdrawal process includes a two-year negotiation period under Article 50, beginning at the date of the official notification. If experience is anything to go by, the time frame is ambitious, so an interim agreement between Britain and the EU could be on the cards," continued Boata. "For example, when Switzerland rejected EEA membership in 1992, negotiations on bilateral arrangements with the EU dragged on for five years. It took another three for these to come into force. The complete trade agreement was only finalized in 2010."

A UK exit from the EU without a FTA could lead to a sharp rise in the number of insolvencies for both the UK and a number of its key European partners, predicts Euler Hermes. Brexit will have the most significant impact on the Netherlands, Ireland and Belgium through their strong exports and cross-investment positions with the UK. Across these countries, insolvency rates are forecast to rise by 2.5 per cent, 2 per cent and 1.5 per cent respectively by 2019 without a new UK FTA with the EU. France, Germany and the U.S. would also experience a significant impact.

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